

Mark Skousen's
Special Report

The
Black Book
of Options



IMPORTANT NOTE: This special report is for information and educational purposes only, based on data as of 2023. If you have never traded options, please do not buy or sell any contracts without first speaking with your broker or a licensed professional. For the latest options recommendations, please check your *weekly alert* update.

Dr. Skousen's Black Book of Options

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The Black Book of Options

First, let me congratulate you on your desire to learn more about one of the most powerful investment vehicles in the markets. Second, I would like to welcome you to the wonderful world of options trading.

Ever hear of the formula RISK = REWARD? Well, that comes into play when you think of options. Options offer a way to earn large profits, but they also come with increased risk, compared to traditional stock investing.

Indeed, the buying and selling of options can be used to turbo-charge your portfolio by earning tremendous profits, like **301%** with Raytheon Co. in my trading service, *Fast Money Alert*.

How Do Options Work?

By definition, options are a contract giving the buyer the right, but not the obligation, to buy or sell an underlying asset (such as a stock) at a specific price on or before a certain date. An option, just like a stock or bond, is a security. It is also a binding contract with strictly defined terms and properties.

Buying an options contract gives you control of a “block” of 100 shares of a particular stock. An option also grants you the right, but not the obligation, to purchase the related shares in that stock at a pre-determined price within a certain period of time. This period of time concludes with an expiration date. I typically like to buy call options that have a life cycle of at least several months to allow enough time for the call options to rise in value sufficiently to sell at a nice profit before they expire.

Why Buy Options?

What is the benefit to buying an option instead of just buying the stock outright? Well, for one, options tend to be far cheaper than their related stocks. As a result, you can buy options with comparatively little investment capital to leverage your money in search of heightened profits. And, your investment risk is fully disclosed up front. You can never lose more than you spent on an options contract. However, the profit potential with options is virtually limitless. Even a tiny move in the underlying stock can yield a tremendous jump in the value of an option.

Let me illustrate this for you with an example. In December 2018, I recommended *Fast Money Alert* subscribers purchase KL April \$25 call options on Kirkland Lake Gold for \$2.20 per contract. At the time, Kirkland’s stock was selling for around \$23, so we were looking for it to rise to at least \$25 by April 18. By mid-January, Kirkland was selling for

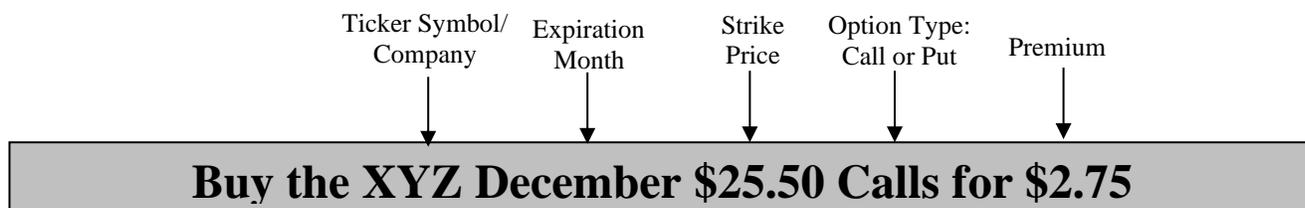
about \$26.75, so this 16% increase in the stock price yielded a 67.27% profit on the options. This is the amazing profit power of options trading.

Generally speaking, there are two types of options -- calls and puts. You buy a call option when you think the price of a stock is going to increase, and you buy a put option if you think the price of a stock will decrease. Both are equally powerful and profitable, given the right set of circumstances. But since my services almost exclusively use call options, I'll focus this special report on that.

What Does an Option Recommendation Look Like?

An option is defined by five main components:

1. The ticker symbol
2. The expiration month
3. The strike price
4. Whether it's a call or a put
5. The premium paid to buy the option



So, an option recommendation might look something like this: **Buy the XYZ December \$25.50 Calls for \$2.75.**

This is a completely theoretical recommendation. But let's examine what each component means and how it would impact your investment if this was an actual recommendation.

A **ticker symbol** is quite simply a short-hand description, featuring a unique combination of letters, to help investors identify a specific publicly traded company.

The **expiration month** is just what you would expect. It indicates the month in which an option expires. If the month when the option becomes invalid (or expires) is reported without including a particular year, you can assume that the option expires in the current year. All stock options end their useful life on the Saturday after the third Friday of their expiration month. I'll provide further explanation about expiration dates elsewhere in this report.

The **strike price** of an option is the price that signifies the investment is "in the money" and able to help you turn a profit. I watch for the stock price of a related option to rise to and especially above its strike price. When a given stock rises well beyond the strike price

in a call option, the investor can sell the option at a handsome profit. I will alert you to such opportunities through my trading services.

For example, if company XYZ traded at \$20 a share, but I think there's a good chance the stock price will reach *at least* \$25.50 per share by the Saturday after the third Friday in October when the related option expires, I might recommend that you buy call options in the stock that have a strike price of \$25.50. Of course, I'll want the stock price to soar above the strike price to enhance the value of the call options. As the related stock price jumps, so does the value of the options.

As I previously stated, I almost always recommend call options rather than put options. Call options are bullish investments that are aimed at achieving heightened gains if the price of the underlying stock increases (which is why I recommend the stock in the first place).

Finally, I want you to understand that the **premium** is the price that you pay to buy an option. The price of an option typically is written in as a "per-share" value. In the case of our example, featuring the hypothetical company XYZ, each contract that you buy applies to 100 shares. So, if the price of the option is listed as \$2.75, then your total premium -- or the price you pay for the right but not the obligation to exercise the option -- would be \$275 per contract. You always pay the premium on an option regardless of whether the underlying stock rises or falls.

So, let's recap the basic terms that we've just covered.

Let's say company XYZ Company has been trading steadily around the \$20 mark. But my research and indicators lead me to project that XYZ Company was about to sign a huge deal or launch a new breakthrough product before December. Based on this information, I am ready to recommend the stock and the coordinate December call options with a strike price that I feel the company is likely to reach. With this information in hand, I might issue a recommendation to buy XYZ December \$25.50 Calls for \$2.75.

At this point, you would need to tell your broker the information that you would receive in your alert to place your order. You would tell your broker in plain English that you want to purchase the XYZ December \$25.50 Calls for \$2.75 and indicate how many contracts that you would like to purchase. Then you would follow the stock's price and the options to wait for the rise.

Understanding How Options Work

As I already mentioned, each options contract grants you control of 100 shares of a particular stock. And the price you pay for an option is called the **premium**. The **premium** is determined by a combination of two factors: an option's **intrinsic** and **extrinsic value**.

The **intrinsic value** is based directly upon the price of the underlying stock. An option can be **in the money**, **out of the money** or **at the money**.

I typically recommend low-priced call options that are **out of the money** to maximize your potential return. The reason for this is that you want the stock price to be below the **strike price** when you buy into the call option, and then you want it to rise above the **strike price** so that it is **in the money** and you can collect your profits.

The further **out of the money** your call option is, the cheaper the premium will be that you pay to buy it. But a key goal is to buy an option inexpensively, while it's **out of the money**, and have it move into the money within our forecasted time frame before expiration. As I explained in my introduction, this approach is the one that I use.

When the stock price matches the **strike price**, the option is considered at the money. If the **strike price** is below the current share price, the option is **in the money**, and an investor will need to pay a heightened premium to buy it. However, when you are looking to buy any particular option play, you would want to purchase an **out of the money** option.

Ultimately, the goal is for the stock price to rise well above a **strike price** so that the related call options will climb in value. So, after you have purchased the options, you want them to rise to become **in the money**, so that you can make money on the investment.

The **extrinsic value** is a much bigger variable in an option's premium. A complex formula is used to determine the **extrinsic value** of an option. That formula includes the expiration date and the perceived volatility of the option. Volatility generates value in an option.

Consider the hypothetical XYZ Company, once again. In our example, I predicted that the stock price would go from \$20 a share to top \$25.50 by December of this year. Assuming that we bought the option in October, only two months exist for those shares to exceed \$25.50 -- an increase of more than 27.5%. Since the chances of a move in that direction might seem unlikely in such a short period of time, the price of the premium that would be required to pay for the options most likely would be low.

If I predicted that the share price wouldn't top \$25.50 until the following December, an additional 12 months away, the likelihood of the stock reaching the strike price would be much greater.

Therefore, the premium required to buy it almost certainly would be higher.

Of course, volatility is another factor that affects the price of an option. Let's say the share price of XYZ was \$10 in August, \$15 in September and \$20 in October. It seems far more likely to hit \$25.50 in the next two months... raising the premium of the option.

Supply and demand also are factors. As the share price gets closer to our strike price, more people will want to buy that option -- driving up its price even further.

How Do We Make Money with Options?

Now that you have a general understanding of what options are and how they work, I want to explain how you can trade them in pursuit of tremendous profits. That is why you're reading this report, right?

And you'll be happy to know there are several ways we can use options to make money... a lot of money. The "traditional" way to make money in the stock market is to simply buy a stock at a low price and sell at a higher one.

Let's look at company XYZ one more time. If you bought 100 shares at \$20 per share in October, and the stock reached \$30 per share in December, you might opt to lock in the gain by selling. The simple math shows that you notched a 50% profit. In other words, 100 shares would have cost you \$2,000, without factoring in the commission for the trade. When the stock jumped to \$30, your 1000 shares are now worth \$3,000 -- a \$1,000 profit, before subtracting the commission for the trade. Not bad for two months' "work."

However, let me now explain a way that we can make much more money by investing in options. I have used this method successfully to help my readers land profits of 330%, 304% and even 333%, with comparatively small movements in the underlying stock price.

You see, an option grants you the right but not the obligation to buy the underlying stock. Selling the option contract itself can be highly profitable!

For example, on January 7, 2019, my *Fast Money Alert* readers received an alert recommending that they buy CIEN (Ciena Corp.) April \$38 calls for \$1.89 per contract, or \$189 total. At the time, the stock was trading for a respectable \$35.56. But I knew it was on the ascent. In just two weeks, the stock moved up from \$34.98 to \$38.70. That's a 10.6% gain... a gain most investors would be happy to see.

But my readers saw their options contracts skyrocket to \$2.88 or \$288 per contract -- a more-than-ample gain of 52.38% (recall the options were bought at \$1.89 or \$189 per contract, so the price more than tripled) -- in just one day. There was plenty of money on the table, but I felt there was still more potential. So, I suggested that my readers sell half of their options and pocket that 52.38% profit. But I also wanted to hold the rest to see just how far we could ride the wave of profits.

The subscribers who followed my suggestions couldn't have been happier. Because three days later, on Feb. 25, the options contracts had reached \$6.47, up 242.33%, and we sold the last half of our position! **All together, we racked up average profits of 147.35% with Ciena call options in roughly one and a half months.**

I can't promise that every play will land you 100%, 200% or 300%. But the occasional 40% and 60% gain still will keep your account moving in the right direction for as long as you follow my recommendations.

And best of all, you can buy options as easily as you can buy stocks. You don't need a special account or broker. Just a few clicks of the mouse to trade in an online account or a five-minute call to your broker is all it takes to make an options trade. Of course, your brokerage may require you to fill out a consent form to ensure you understand that options will put your money at risk.

Then, all you have to do is sit back, relax, wait for my sell recommendation and rake in staggering profits! Keep in mind that a small number of big winners can compensate for a larger number of modest losers. My time-tested success formula involves buying options cheaply enough to ensure that the big winners that I recommend more than offset any losing positions.

An Alternative to Consider -- Exercising Your Options

An alternative way to try to make money with an option is to "exercise" it. My preferred method is to sell the option at a profit before it expires, but I will explain what happens when you exercise an option, in case you ever decide to do so.

Once again, let's consider the hypothetical XYZ Company. If you purchase one (1) contract of the XYZ December \$25.50 call option at a \$2.00 premium, you will pay \$200 per contract. As I explained earlier in this report, that means you have a contract that grants you the right to buy 100 XYZ shares at the price of \$25.50, any time before the Saturday following the third Friday in December.

If the price of the stock climbed to \$30.00 per share and you chose to exercise your stock option, you could buy 100 shares of XYZ Company for a total of \$2,550.00 and sell them immediately for \$3,000.00. So, that \$200.00 investment would have become \$450.00 ($\$3,000.00 - \$2,550.00$), before subtracting the \$200 price of the contract. Once the \$200 price of the contract is subtracted, the return is \$250.

That's a gain of 125% ($(\$450 - \$200) / \$200$)! And you never had more than \$200.00 at stake.

In other words, if the Saturday after the third Friday in December had rolled around and the stock had dropped by 50% instead of being above the strike price, the options would have expired and become worthless, and you'd be out \$275 (the call premium). However, had you bought the underlying stock for \$2,000 and it dropped by 50%, you'd be out \$1,000!

Conclusion

My option trades thankfully are averaging double-digit-percentage returns, so my strategy of buying bargain-priced options clearly works. Here's to profitable investing! I'm happy to have you on board.

Yours for options profits, AEIOU,



Dr. Mark Skousen

Editor, *TNT Trader*, *Five Star Trader*, *Home Run Trader*, *Fast Money Alert*, *Forecasts and Strategies*

P.S. If you want to put your new-found skills to the test with options trading, look at my Fast Money Alert trading service. In it, I'll give you'll have the opportunity to score big profits through trading stock and options. [Click here now to get started in your options trading journey.](#)

Glossary

- **At the Money** -- The price of the underlying stock is equal to the strike price of the options contract.
- **Exercise** -- For options, this term means you chose to buy a given stock at the price outlined in the options contract.
- **Expiration month** -- The month during which your option will expire unless you exercise the contract or choose to sell it beforehand. All stock options expire on the Saturday after the third Friday of their expiration month.
- **Extrinsic value** -- This is the value assigned to the premium of an options contract, based on the expiration date and the perceived volatility of the underlying stock price. It is combined with the intrinsic value to determine the total premium of an options contract.
- **In the Money** -- The price of the underlying stock is above the strike price of the options contract.
- **Intrinsic value** -- The value assigned to the premium of an options contract in proportion to the underlying stock price. It is combined with the extrinsic value to determine the total premium of a contract.
- **Option** -- A contract that grants you the right, but not the obligation, to purchase 100 shares of an underlying stock at a predetermined price within a certain time frame.
- **Out of the Money** -- This occurs when the underlying stock price is below the strike price of the option. We tend to buy options that are out-of-the-money in hopes that they move in-the-money before the options contract expires.
- **Premium** -- The price of each options contract. It usually is expressed in terms of a per-share dollar amount. Since each contract controls 100 shares, a premium of \$.50 would actually cost \$50.
- **Strike price** -- The price at which a call option is at the money.

Biography



Mark Skousen, Ph. D., editor of *Forecasts & Strategies*, is a nationally known investment expert, economist, university professor and author of more than 25 books. In July 2018, Dr. Skousen was awarded the inaugural Triple Crown in Economics for his work in economic theory, history and education, and has been identified as one of the 20 most influential living economists.

He earned his Ph. D. in monetary economics at George Washington University in 1977. He has taught economics and finance at Columbia Business School, Columbia University, Barnard College, Mercy College, Rollins College and Chapman University. He also has been a consultant to IBM, Hutchinson Technology and other Fortune 500 companies.

Since 1980, Skousen has been editor in chief of *Forecasts & Strategies*, a popular award-winning investment newsletter. He also is editor of four trading services, *Five Star Trader*, *Home Run Trader*, *Fast Money Alert* and *TNT Trader*.

He is the producer of FreedomFest, “the world’s largest gathering of free minds,” which meets every July in Las Vegas (www.freedomfest.com). FreedomFest attracts several thousand people from around the world.

He is a former analyst for the Central Intelligence Agency, a columnist to *Forbes* magazine (1997-2001) and past president of the Foundation for Economic Education (FEE) in New York.

He has written articles for the *Wall Street Journal*, *Reason*, *The Daily Caller*, *Christian Science Monitor* and *The Journal of Economic Perspectives*. He has appeared on CNBC, ABC, CNN, Fox News and C-SPAN Book TV.

Based on his work “The Structure of Production” (NYU Press, 1990), the federal government began publishing a broader, more accurate measure of the economy, Gross Output (GO), every quarter along with gross domestic product (GDP). It is the first macro statistic of the economy to be published quarterly since GDP was invented in the 1940s.